SaskTel

Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS

December 31, 2009

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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the statement of financial position of Saskatchewan Telecommunications as at December 31, 2009 and the statements of operations and comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
March 1, 2010

Statement of Operations and Comprehensive Income

For the year ended December 31, (Thousands of dollars)	2009	2008 (Restated Note 2)
Operating revenues	$1,053,491	$1,045,757
Operating expenses		
Operations	752,694	736,149
Depreciation and amortization	172,599	160,462
Restructuring charges (Note 6)	3,619	21,506
Write down of assets held for sale	-	8,274
	928,912	926,391
Income from operations	124,579	119,366
Other items	7,402	4,388
Interest and related items (Note 7)	(17,244)	(21,933)
Income before the following	114,737	101,821
Loss on disposal of assets held for sale (Note 8)	(9,002)	-
Net income	105,735	101,821
Other comprehensive income	-	-
Comprehensive income	$105,735	$101,821

See Accompanying Notes

Statement of Retained Earnings

For the year ended December 31, (Thousands of dollars)	2009	2008 (Restated Note 2)
Retained earnings, beginning of year as previously reported	$227,098	$192,232
Prior period adjustment (Note 2)	1,665	(539)
Retained earnings, beginning of year as restated	228,763	191,693
Net income	105,735	101,821
	334,498	293,514
Dividends	68,727	64,751
Retained earnings, end of year	$265,771	$228,763

See Accompanying Notes

Saskatchewan Telecommunications

Statement of Financial Position

As at December 31, (Thousands of dollars)	2009	2008 (Restated Note 2)
Assets		
Current assets		
Accounts receivable (Note 20a)	$87,766	$85,280
Inventories (Note 9)	7,748	8,066
Prepaid expenses (Note 20a)	9,622	10,384
Current portion of sinking funds (Note 13)	7,013	-
Assets held for sale	-	7,423
	112,149	111,153
Property, plant and equipment (Note 10)	883,701	816,186
Intangible assets – finite-life (Note 11)	39,064	55,728
Intangible assets - indefinite-life (Note 12)	65,981	65,981
Sinking funds (Note 13)	47,224	50,084
Deferred pension costs (Note 22)	108,145	91,518
Other assets (Note 14)	8,193	9,423
Assets held for sale	-	6,601
	$1,264,457	$1,206,674
Liabilities and Province's equity		
Current liabilities		
Bank indebtedness	$11,700	$6,669
Accounts payable and accrued liabilities (Note 20a)	116,430	110,572
Dividend payable	19,586	23,411
Services billed in advance (Note 20a)	48,027	46,057
Current portion of long-term debt (Note 17)	60,073	123
Liabilities related to assets held for sale	-	6,570
	255,816	193,402
Deferred revenue	9,146	10,714
Notes payable (Note 15)	194,688	217,003
Deferred revenue – Rural Infrastructure Program funding (Note 16)	42,400	-
Long-term debt (Note 17)	161,064	221,220
	663,114	642,339
Province of Saskatchewan's equity		
Equity advances (Note 18)	335,572	335,572
Retained earnings	265,771	228,763
	601,343	564,335
	$1,264,457	$1,206,674

See Accompanying Notes

On behalf of the Board:

Grant Kook

Blair Davidson

Saskatchewan Telecommunications

Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2009	2008 (Restated Note 2)
Operating activities		
Net income	$105,735	$101,821
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	172,599	160,462
Write down of assets held for sale	-	8,274
Loss on disposal of assets held for sale	9,002	-
Pension income of defined benefit plan	(8,408)	(12,741)
Special termination benefits cost	-	11,584
Contributions to defined benefit pension plans	(8,252)	(29,727)
Sinking fund earnings	(2,752)	(2,693)
Other	(3,260)	(1,578)
Net change in non-cash working capital (Note 20b)	7,475	(7,699)
Cash provided by operating activities	272,139	227,703
Investing activities		
Property, plant and equipment expenditures	(201,145)	(121,598)
Intangible assets – finite - life	(23,422)	(19,520)
Intangible assets – indefinite - life	-	(65,981)
Rural Infrastructure Program funding	45,000	-
Cash used in investing activities	(179,567)	(207,099)
Financing activities		
Increase (decrease) in notes payable to Holdco	(22,315)	45,664
Sinking fund installments	(2,216)	(2,216)
Repayment of long-term debt	(214)	(20,780)
Capital lease obligations	(22)	(16)
Dividends paid	(72,552)	(46,885)
Financing leases	(284)	(561)
Cash used in financing activities	(97,603)	(24,794)
Decrease in cash	(5,031)	(4,190)
Cash and cash equivalents, beginning of year	(6,669)	(2,479)
Cash and cash equivalents, end of year	$(11,700)	$(6,669)
Comprised of:		
Bank indebtedness	$(11,700)	$(6,669)

See Accompanying Notes

Notes to Financial Statements

Note 1 – The Corporation

Saskatchewan Telecommunications (the Corporation) markets and supplies a range of voice, data, internet, wireless, text, image and entertainment products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of *The Saskatchewan Telecommunications Act* and, as such, the Corporation is not subject to Federal or Provincial income taxes in Canada.

The Canadian Radio-television and Telecommunications Commission (CRTC) regulates the Corporation under the *Telecommunications Act* (Canada).

By virtue of *The Crown Corporations Act, 1993*, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the financial statements of CIC, a Provincial Crown corporation, through consolidation with Saskatchewan Telecommunications Holding Corporation (Holdco).

Note 2 – Change in accounting policies and prior period adjustment

Effective for year-ends beginning on or after January 1, 2009, the CICA has amended certain sections of the CICA Handbook to remove the rate regulation exemption for recognition of certain assets and liabilities arising from rate regulation as well as other recognition and measurement guidance. The Corporation has implemented these changes with no impact on the financial statements of the Corporation.

Effective January 1, 2009, the Corporation adopted the accounting recommendations for goodwill and intangible assets (Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064) in accordance with the transition provisions of the section. This section requires intangible assets to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria, and provides further information on the recognition of internally generated intangible assets. The new recommendations have been implemented retroactively.

In addition, revenue and expenses related to certain prepaid cellular services had been incorrectly recorded for 2008 and prior years. The financial statements have been retroactively restated for all periods presented.

Total adjustments to December 31, 2008 balances are as follows:

(Thousands of dollars)	Change in Accounting Policy	Prior period adjustment	Total
Increase (decrease)			
Revenue	$-	$1,239	$1,239
Operating expenses	-	(965)	(965)
Net income	-	2,204	2,204
Prepaid expenses	-	(1,305)	(1,305)
Intangible assets – finite life – software	55,728	-	55,728
Property, plant and equipment	(55,728)	-	(55,728)
Services billed in advance	-	(2,970)	(2,970)
Beginning retained earnings	-	(539)	(539)
Ending retained earnings	-	1,665	1,665

Notes to Financial Statements

Note 3 – Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada (GAAP).

Cash and short-term investments

Cash and short-term investments include interest bearing investments with Holdco that are due on demand and are stated at fair value.

Inventories

Materials, supplies and inventories are recorded at the lower of cost and net realizable value. Cost is determined using an average-cost basis.

Property, plant and equipment

Property, plant and equipment is recorded at cost including materials, services and direct labour.

Depreciation and amortization on property, plant and equipment is computed on the straight-line basis, using rates determined by a continuing program of engineering studies for each class of property in service.

Asset	Estimated useful life
Buildings	25 - 35 years
Plant and equipment	2 - 50 years
Office furniture, equipment and leaseholds	3 - 17 years

With respect to property, plant and equipment acquired and constructed or developed over time, the Corporation follows the policy of capitalizing related equipment, construction and installation costs, including direct labour, as plant under construction. These costs are then depreciated and amortized on a basis consistent with the Corporation's depreciation and amortization policy from the date the asset is substantially completed and put into productive use.

Assets held for sale and discontinued operations

Long lived assets are classified as held for sale when certain criteria are met, which include: the Corporation's commitment to a plan to sell the assets; the assets are available for immediate sale in their present condition; an active program to locate buyers and other actions to sell the assets have been initiated; the sale of the assets is probable and their transfer is expected to qualify for recognition as a completed sale within one year; the assets are being actively marketed at reasonable prices in relation to their fair value; and it is unlikely that significant changes will be made to the plan to sell the assets or that the plan will be withdrawn.

A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction represent a disposal group and are reflected as assets and liabilities held for sale.

The Corporation measures long-lived assets held for sale at the lower of carrying amount or fair value less cost to sell. These assets are not depreciated or amortized.

Notes to Financial Statements

Note 3 – Summary of significant accounting policies, continued

A component of the Corporation that is held for sale is reported as a discontinued operation if the operations and cash flows of the component will be eliminated from the ongoing operations as a result of a disposal transaction and the Corporation will not have a significant continuing involvement in the operations of the component after the disposal transaction.

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment, are amortized over their useful lives. The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value.

Asset retirement obligations

Legal obligations associated with the retirement of property, plant and equipment are initially measured at fair value and are adjusted for any changes resulting from the passage of time and any changes to the timing or amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized as part of the related asset and is amortized into earnings over the asset's useful life. There were no significant asset retirement obligations as at December 31, 2009.

Intangible assets - finite-life

Intangible assets are recorded at cost of acquisition or development, including where applicable direct development costs, overhead costs directly attributable to development activity and betterment costs.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Asset	Estimated useful life
Software	1 - 5 years

The Corporation annually reviews the amortization method and useful lives of finite-life intangible assets.

Intangible assets with a finite life are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

Intangible assets - indefinite-life

Intangible assets with an indefinite life are not subject to amortization; they are tested annually for impairment to ensure that their fair value is greater than or equal to their carrying value. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

Notes to Financial Statements

Note 3 – Summary of significant accounting policies, continued

Deferred revenue – government funding

Government funding related to operating expenses is recognized in income when the related expenses are incurred. Government funding related to capital expenditures is deferred until the related assets are in service. The funding is amortized over the estimated useful life of the related assets, currently 16 years.

Revenue recognition

Revenues are recognized in the period the services are provided when there is clear proof that an arrangement exists, amounts are determinable and the ability to collect is reasonably assured. Revenues from local telecommunications, data, internet, entertainment and security services are recognized based on access to the Corporation's network and facilities at the rate plans in effect during the period the service is provided. Certain service connection charges and activation fees, along with corresponding direct costs are deferred and recognized over the average expected term of the customer relationship. Revenues from long distance and wireless airtime are recognized based on the usage or rate plans in the period service is provided. Revenues from equipment sales are recognized when the equipment is delivered to and accepted by the customer. Revenues for longer term contracts are recognized based on a percentage of completion. Payments received in advance are recorded as deferred revenue until the product or service is delivered.

Customer solutions may involve the delivery of multiple services and products that occur at different points and over different periods of time. The multiple services are separated into their respective accounting units and consideration is allocated among the accounting units. The relevant revenue recognition policies are applied to each accounting unit.

The CRTC has established a National Subsidy Fund to subsidize Local Exchange Carriers (LECs), like the Corporation, that provide service to residential customers located in high cost service areas (HCSAs). The CRTC has set the rate per line and band for all LECs. The Corporation recognizes the revenue on an accrual basis by applying the rate to the number of residential network access lines served during the period in HCSAs.

Employee future benefits

The Corporation has: a defined benefit pension plan (a), a defined contribution pension plan (b), and a service recognition defined benefit plan (c).

a) Defined benefit pension plan
The Corporation accrues its obligations under the Saskatchewan Telecommunications Pension Plan and the related costs, net of plan assets. The Corporation has adopted the following policies related to the defined benefit plan:

The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

Pension plan assets are valued at fair value, which is determined using current market values.

Expected return on plan assets is calculated based on a five year weighted average of actuarial gains and losses, expected returns on plan assets, and contributions and benefit payments made in the current year.

Notes to Financial Statements

Note 3 – Summary of significant accounting policies, continued

Past service costs from plan amendments were amortized on a straight-line basis over the average remaining service period of employees who were active on the day of the amendment but not yet fully eligible to receive benefits (8.3 years). This represents the period that economic benefits from the amendments are expected to be realized.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market related value of the plan assets is amortized over the average remaining life of retired members of the plan. The average remaining life of retired members was calculated as a weighted average of 22 years.

When the restructuring of a benefit plan results in a settlement and a curtailment of obligations, the curtailment is accounted for prior to the settlement.

b) Defined contribution pension plan
Defined contribution plan costs are recognized as employees render services during the year.

c) Service recognition defined benefit plan
The Corporation provides a service recognition defined benefit plan for its employees. The cost of the plan is determined using the projected benefit method prorated on service.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Financial instruments

Upon initial recognition, financial instruments are measured at fair value and are classified as held-to-maturity, held-for-trading, available-for-sale, loans and receivables or other liabilities. Held-to-maturity assets are carried at amortized cost with amortized premiums or discounts and other than temporary losses due to impairment included in net income. Held-for-trading assets and liabilities are carried at fair value with any gains or losses included in net income. Available-for-sale assets are carried at fair value with revaluation gains or losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, and other liabilities are accounted for at amortized cost using the effective interest method. Transaction costs are included in the initial carrying value of the financial instrument except for held-for-trading instruments in which case they are expensed as incurred.

Derivative financial instruments are used by the Corporation in the management of its financial exposures as deemed appropriate, and based on the risk management strategy of the Corporation. The Corporation's policy is not to use derivative financial instruments for trading or speculative purposes.

The Corporation, from time to time, is party to certain derivative financial instruments, principally interest rate swap contracts (used to manage the exposure to market risks from changing interest rates) and forward foreign exchange contracts (used to manage foreign currency exposures). The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Notes to Financial Statements

Note 3 – Summary of significant accounting policies, continued

For fair value hedges, changes in the fair value of the derivatives and corresponding changes in fair value of the hedged items attributed to the risk being hedged will be recognized in net income. For cash flow hedges, the effective portion of the changes in the fair values of the derivative instruments will be recorded in other comprehensive income until the hedged items are recognized in net income.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of property, plant and equipment and underlying estimations of useful lives of depreciable assets and capitalization of labour and overhead, the carrying amount of intangible assets and underlying estimates of future cash flow, the carrying amounts of accounts receivable and underlying provision for bad debts and the carrying amounts of deferred pension costs and underlying actuarial assumptions. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 4 – Accounting policy developments

International Financial Reporting Standards (IFRS)

The CICA Accounting Standards Board has confirmed that publicly accountable enterprises will be required to adopt IFRS in place of GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The Public Sector Accounting Board (PSAB) in September 2009, approved an amendment to the introduction to the Public Sector Accounting Handbook which requires Government Business Enterprises (GBEs) to adopt IFRS and Other Government Organizations (OGOs) to adopt either IFRS or the public sector handbook, whichever is considered the most appropriate basis of accounting. The Corporation, as a GBE, is proceeding with adoption of IFRS.

The Corporation, has commenced an IFRS conversion project including initiating the development of high level IFRS implementation plans that include stakeholder identification, milestones and deadlines, planned scope and approach, risks and mitigations, project governance and accountability responsibilities, and resource requirements. An external advisor has been engaged to assist with the development of plans and to perform a detailed review of major differences between current GAAP and IFRS. Board members have been briefed on IFRS, in general, and the Corporation's project plan has been reviewed by the Board of Directors.

Management and staff from the Corporation have participated in detailed IFRS training seminars. Project teams have completed an initial assessment of those international financial reporting standards with the highest potential for impacts on the Corporation as a whole. Based on the analysis to date, potential significant areas of difference are related to accounting for property, plant and equipment, and employee future benefits, revenue recognition, impairment testing and financial statement disclosures. Working groups have been formed to review identified standards in detail and discuss specific issues as a basis for ensuring common understanding and, where possible, consistency in approaches to issue resolution. Selection of accounting policies has been finalized and the Corporation is in the final stages of determining the impact of IFRS on processes, systems, internal controls over financial reporting and disclosures, and future financial position and results of operations. IFRS financial statement presentation formats are being finalized in conjunction with Holdco. As part of the IFRS implementation, the

Notes to Financial Statements

Note 4 – Accounting policy developments, continued

Corporation plans to make changes to certain processes and systems to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

Note 5 – Rate regulation

The Corporation's telecommunications and broadcast services are regulated by the CRTC. However, the CRTC only regulates rates for specific telecommunications services and only in locations where the Commission believes that the level of competition in that service is not high enough that market forces can be relied on to protect the interests of customers. For these 'non-forborne' services, the rate which the Corporation may charge must receive CRTC approval prior to being implemented and may not be set below the long run incremental cost of the service, calculated according to CRTC costing rules.

The CRTC also regulates the rates for all services that are designed for use by competitors. The CRTC requires rates for many of these services to be based on long run incremental costs plus approved mark-ups.

In addition, the CRTC has implemented a price cap framework which: limits the Corporation's flexibility in the pricing of some rate regulated retail services; subjects certain competitor service rates to potential annual decreases; and prohibits the Corporation from altering basic residential access rates in areas deemed to be Low Cost Serving Areas.

The CRTC has established a subsidy mechanism aimed at keeping basic residential access affordable in areas deemed by the CRTC to be High Cost Serving Areas (HCSAs). In these areas the Corporation receives a subsidy from the National Contribution Fund equal to the difference between long-run incremental costs in these areas and the rates charged to subscribers. Therefore the revenue received by the Corporation in these areas is effectively the rate charged to subscribers plus the subsidy per line. The cost component of the subsidy calculation amount is adjusted annually based on assumed productivity gains less inflation. The rate component is also adjusted annually as the CRTC has given the Corporation the ability to make annual rate increases equal to the rate of inflation in HCSAs, however, even if the Corporation does not raise rates in these areas, the increase is assumed to have been applied and the subsidy per line is decreased.

In September of 2009, the CRTC issued *Notice of Consultation 2009-575 Call for comments – Identification, scope, and prioritization of issues regarding obligation to serve, basic service objective, and local service subsidy regime*. The results of this consultation could significantly impact future subsidy mechanisms. As a result of responses to the Call for comments, the CRTC has issued Telecom *Notice of Consultation CRTC 2010-43* advising of proceedings to review access to basic telecommunications services and other matters.

Approximately 19% (2008 – 20%) of the Corporation's operating revenues are currently subject to CRTC rate regulation. Rate regulation does not result in the Corporation selecting accounting policies that would differ from GAAP.

Notes to Financial Statements

Note 6 – Restructuring charges

During 2009, $3,619,254 (2008 - $21,506,097) was recorded to restructuring charges. The charges relate to phase three of a three phase voluntary early retirement program (ERP) with each phase occurring over a two year period.

The ERP has been undertaken to reduce operating costs and manage the employee demographic profile in the context of a changing labour market. During 2009, 46 employees (2008 – 123) elected to receive a package that included a cash allowance and immediate pension benefits.

The table below provides a summary of the costs recognized and the liability recorded at December 31:

	2009	2008
		(Thousands of dollars)
Balance in accounts payable and accrued liabilities, beginning of year	**$9,140**	$9,760
Restructuring charges	**3,619**	21,506
Less:		
Cash payments	**9,854**	10,542
Special termination benefits costs	**-**	11,584
Balance in accounts payable and accrued liabilities, end of year	**$2,905**	$9,140

Note 7 – Interest and related items

	2009	2008
		(Thousands of dollars)
Interest expense	**$19,181**	$24,235
Sinking fund earnings	**(2,752)**	(2,693)
Change in fair value of financial instruments	**815**	391
	$17,244	$21,933

Note 8 – Disposal of assets held for sale

During the fourth quarter of 2008, the Corporation approved a plan whereby specific underperforming out of province assets were to be divested and the criteria for classification as assets held for sale was met. On December 8, 2009 these assets were sold for consideration of $1,250,000 resulting in a loss on disposal of $9,002,058.

Note 9 – Inventories

During the year, $23,513,684 of inventories for resale (2008 - $19,696,393) were recognized as cost of goods sold. Inventory write-downs amounted to $532,435 (2008 - $452,669). There were no reversals of any prior period write-down during 2009.

Notes to Financial Statements

Note 10 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2009	2008 (Restated Note 2)
(Thousands of dollars)				
Buildings	$193,607	$106,578	$87,029	$90,026
Plant and equipment	2,371,358	1,812,860	558,498	572,908
Office furniture, equipment and leaseholds	70,119	36,181	33,938	30,585
Plant under construction	177,833	-	177,833	101,901
Materials and supplies	21,481	-	21,481	15,809
Land	4,922	-	4,922	4,957
	$2,839,320	$1,955,619	$883,701	$816,186

Depreciation and amortization for the year totaled $140,519,738 (2008 - $143,897,481).

Note 11 – Intangible assets - finite-life

	Cost	Accumulated amortization	Net book value	
			2009	2008 (Restated Note 2)
(Thousands of dollars)				
Software	$103,103	$64,039	$39,064	$55,728

Amortization for the year totaled $32,005,571 (2008 - $16,490,760).

Note 12 – Intangible assets - indefinite-life

Indefinite-life intangible assets consist of spectrum licenses in Saskatchewan in the amount of $65,980,507. The licenses have been determined to have an indefinite life and as such are not amortized.

Note 13 - Sinking funds

Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds, administered by the Saskatchewan Ministry of Finance, amounts at least equal to one percent of the debt outstanding. The fund includes the Corporation's required contributions, its proportional share of earnings and its proportional share of revaluation gains or losses.

Notes to Financial Statements

Note 13 - Sinking funds, continued

The changes in the carrying amount of sinking funds are as follows:

	2009	2008
		(Thousands of dollars)
Sinking funds, beginning of year	**$50,084**	$45,566
Installments	**2,216**	2,216
Earnings	**2,752**	2,693
Valuation adjustments, during the year	**(815)**	(391)
Total sinking funds	**54,237**	50,084
Less current portion	**7,013**	-
	$47,224	$50,084

As at December 31, 2009 scheduled sinking fund installments for the next five years are as follows:

	(Thousands of dollars)
2010	$2,216
2011	1,616
2012	1,616
2013	1,616
2014	1,616

Note 14 – Other assets

	2009	2008
		(Thousands of dollars)
Deferred expenses	**$6,562**	$7,785
Financing leases	**1,447**	1,380
Other	**184**	258
	$8,193	$9,423

Amortization for the year totaled $74,022 (2008 - $74,022).

Note 15 – Notes payable

The balance represents amounts due to Holdco which are unsecured and bear interest at the Holdco's borrowing rate of 0.28% (2008 – 1.55%), with no fixed repayment terms.

Notes to Financial Statements

Note 16– Deferred revenue – Rural Infrastructure Program funding

The Corporation received $45,000,000 in funding from the Province of Saskatchewan through CIC, as partial funding of the 2009 portion of the Rural Infrastructure Program. The $45,000,000 has been classified as deferred revenue and will be recognized as related expenses are incurred or amortized as assets related to the program are put into service.

Funded expenditures for the year amounted to $34,248,949, of which $31,649,451 related to capital expenditures. In accordance with the Corporation's accounting policy, $2,599,704 has been recognized as revenue and included in other items in the current period.

Note 17 – Long-term debt

	Years to Maturity	Weighted Average Interest Rate (%)	2009	2008 (Thousands of dollars)
Province of Saskatchewan				
Canadian dollar issues (a)	1	5.96	**$60,073**	$60,176
Canadian dollar issue (a)	11	10.18	**125,790**	125,752
Canadian dollar issues (a)	20	5.18	**35,000**	35,000
			220,863	220,928
Other			**274**	415
Total long-term debt			**221,137**	221,343
Less current portion			**(60,073)**	(123)
			$161,064	$221,220

As at December 31, 2009, scheduled principal debt retirement requirements are as follows:

	(Thousands of dollars)
2010	$60,000
2011	-
2012	-
2013	-
2014	-

Note 18 – Equity advances and additional capital disclosures

a) Equity advance

The Corporation's equity financing is in the form of equity advances of $250,000,000 (2008 - $250,000,000) from CIC and $85,572,000 (2008 - $85,572,000) from Holdco.

b) Additional capital disclosures

The Corporation's objectives when managing capital are to ensure adequate capital to support the operations and growth strategies of the Corporation, and to ensure adequate returns to the shareholder.

Notes to Financial Statements

Note 18 – Equity advances and additional capital disclosures, continued

The capital structure is determined in conjunction with the shareholder based on the approved business plans.

The Corporation monitors capital on the basis of the debt ratio. The ratio is calculated as net debt divided by end of period capitalization. Net debt is defined as total debt, including long-term debt, notes payable and the current portion of long-term debt, less sinking funds, and cash and cash equivalents. Capitalization includes net debt, equity advances and retained earnings at the period end.

The Corporation's strategy, which is unchanged from 2008, is to maintain a debt to equity ratio below 45%.

The debt ratio is as follows:

(Thousands of dollars)	**2009**	2008 (Restated Note 2)
Total debt	**$415,825**	$438,346
Less: Sinking funds	**54,237**	50,084
Net debt	**361,588**	388,262
Equity	**601,343**	564,335
Capitalization	**$962,931**	$952,597
Debt ratio	**37.6%**	40.8%

The Corporation is not subject to any externally imposed capital requirements.

Note 19 – Commitments and contingencies

Commitments

The future minimum payments under operating leases and contractual obligations for services in each of the next five years are as follows:

	(Thousands of dollars)
2010	
2011	$30,201
2012	23,379
2013	22,545
2014	21,745
	21,063

The above payments include $24,927,500 for leases with related parties.

Contingencies

On August 9, 2004, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless

Notes to Financial Statements

Note 19 – Commitments and contingencies, continued

customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. The Plaintiffs seek unquantified damages from the defendant wireless communications service providers. Similar proceedings have been filed by, or on behalf of, Plaintiffs' counsel in other provincial jurisdictions. On September 17, 2007, the Saskatchewan court certified the Plaintiff's proceeding as a class action with respect to an allegation of unjust enrichment only. The Corporation, together with all other defendants in the proceedings as well as the Plaintiffs have filed motions with the Saskatchewan Court of Appeal seeking leave to appeal the decision of the court certifying the action as a class action. The Corporation's leave to appeal application is presently before the Court of Appeal and was to have been heard in October 2009. On July 24, 2009 a second proceeding under the *Class Actions Act* (Saskatchewan) was issued against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The Corporation believes this second claim involves substantially the same allegations as the 2004 claim. On December 7 and 8, 2009 the Court of Queen's Bench heard motions by the Defendants, including The Corporation, that the second action commenced by the Plaintiffs in July 2009 should be permanently stayed (prevented from proceeding in any manner) as an abuse of the process of the Court, given the existence of the 2004 action. A decision by the Court of Queen's Bench on the Defendant's Abuse of Process motion was issued December 23, 2009. This second action has been conditionally stayed as an abuse of process without prejudice to the plaintiff, allowing them to pursue their claims in the future if circumstances change. The Corporation is currently waiting for written reasons for this ruling. The Plaintiff's motion to discontinue the 2004 action was withdrawn leaving the 2004 action as an active lawsuit before the Court. A further case management conference is scheduled with the Court to determine next steps and scheduling for the outstanding litigation. The Corporation continues to believe that it has strong defenses to the allegations and that legal errors were made by the court in the certification proceeding of the 2004 claim and that it has strong defenses to the allegations contained in the most recent 2009 claim. The Corporation's leave to appeal application in the 2004 action was heard by the Saskatchewan Court of Appeal on February 24, 2010 with the decision to be given at a later date.

On March 20, 2007, R.L.T.V. Investments Inc. brought a lawsuit against Saskatchewan Telecommunications Holding Corporation, Saskatchewan Telecommunications and several current and former officers and employees of Saskatchewan Telecommunications. The lawsuit includes allegations that the Corporation wrongfully obtained its Multipoint Communication Systems (MCS) license in Saskatchewan and is legally responsible for the failure of Image Wireless Communications Inc. as a consequence of alleged breach of contract, intentional interference with trade or business, deceit, misrepresentation and breach of the Competition Act. The Plaintiff claims damages in excess of $87 million. The Corporation believes that it has strong defenses to the allegations and a motion to strike all claims against the defendants was heard on September 25, 2007. The court struck the lawsuit in its entirety and the Plaintiff's appeal of the decision to the Saskatchewan Court of Appeal was heard on November 20, 2008. The Saskatchewan Court of Appeal released its unanimous decision on July 23, 2009 and agreed with the Court of Queen's Bench that the lawsuit should be dismissed in its entirety. The Plaintiffs are now seeking leave of the Supreme Court of Canada to appeal that decision. The Corporation awaits a decision form the Supreme Court of Canada regarding this application.

On June 26th, 2008, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireline, wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireline and wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning fees and charges

Notes to Financial Statements

Note 19 – Commitments and contingencies, continued

paid for 9-1-1 service. The Plaintiffs seek unquantified damages from the defendant communications service providers. Thus far the claim has simply been issued by the Plaintiffs. The Corporation is not aware whether all the named defendant carriers have been served with the claim yet. The Corporation believes that it has strong defenses to the allegations that are made by the Plaintiffs in the claim and will be strongly defending and opposing the claims that have been made. External legal counsel has been retained by the Corporation to handle this matter. No further steps have been taken in this action to date.

Should the ultimate resolution of these actions differ from management's assessments and assumptions, a material adjustment to the Corporation's financial position or results of operations could result.

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2009 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

Deferral account

The previous price cap framework, which expired in May of 2007, included a mechanism known as the "deferral account". This mechanism was used to mitigate potential adverse effects on competition in the local market which the CRTC felt might be caused by mandated reductions in the price of local residential service. Rather than lowering rates, as the price cap formula would otherwise have required, the CRTC directed the Corporation to keep a record of the amount of revenue which would otherwise have been lost. Various adjustments to this amount were allowed or required as a result of specific CRTC policy directives.

A new price cap framework, which no longer contains a deferral account mechanism, became effective May 2007. However, there is an outstanding deferral account balance generated during the previous price cap period, which, in Saskatchewan must be used to fund initiatives such as service improvements for the disabled.

On January 17, 2008, the CRTC released its decision in the proceeding determining the specific uses of the deferral account and approving the Corporation's proposals. The Corporation will spend the deferral accounts remaining balance of $1.1 million over the next two years on items designed to improve service for the disabled.

Note 20 – Additional financial information

a) Balance sheet

(Thousands of dollars)	2009	2008 (Restated Note 2)
Accounts receivable		
Customer accounts receivable	$75,745	$76,838
Accrued receivables - customer	4,004	3,946
Allowance for doubtful accounts	(3,476)	(9,025)
	76,273	71,759
High cost serving area subsidy	5,446	5,110
Other	6,047	8,411
	$87,766	$85,280

Notes to Financial Statements

Note 20 – Additional financial information, continued

(Thousands of dollars)	2009	2008 (Restated Note 2)
Prepaid expenses		
Prepaid expenses	**$3,898**	$4,024
Deferred service connection charges	**5,724**	6,360
	$9,622	$10,384
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	**$62,744**	$52,104
Payroll and other employee-related liabilities	**46,178**	50,794
Taxes payable	**5,072**	5,000
Interest payable	**2,316**	2,441
Other	**120**	233
	$116,430	$110,572
Services billed in advance		
Advance billings	**$35,990**	$33,687
Deferred service connection charges	**7,116**	7,912
Customer deposits	**4,921**	4,458
	$48,027	$46,057

b) Supplementary cash flow information

(Thousands of dollars)	2009	2008 (Restated Note 2)
Net change in non-cash working capital		
Accounts receivable	**$5,131**	$6,834
Inventories	**318**	596
Prepaid expenses	**784**	829
Accounts payable and accrued liabilities	**1,042**	(19,137)
Services billed in advance	**544**	3,659
Deferred revenues	**(344)**	(480)
	$7,475	$(7,699)
Interest paid	**$18,411**	$20,508

Note 21 – Financial instruments

The Corporation's financial instruments include accounts receivable, sinking funds, bank indebtedness, accounts payable and accrued liabilities, dividend payable, notes payable and long-term debt, which by their nature are subject to risks.

a) Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and

Notes to Financial Statements

Note 21 – Financial instruments, continued

remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The following table represents the carrying amounts and fair values of financial assets and liabilities measured at fair value or amortized cost:

(Thousands of dollars)

Financial Instruments	Classification[1]	**2009** Carrying Amount	**2009** Fair Value	2008 Carrying Amount	2008 Fair Value
Financial Assets					
Accounts receivable	LAR	**$87,766**	**$87,766**	$85,280	$85,280
Accounts receivable - held for sale	LAR	-	-	7,401	7,401
Sinking funds	HFT	**54,237**	**54,237**	50,084	50,084
Financial Liabilities					
Bank indebtedness	OL	**11,700**	**11,700**	6,669	6,669
Accounts payable and accrued liabilities	OL	**116,430**	**116,430**	110,572	110,572
Accounts payable and accrued liabilities - held for sale	OL	-	-	4,586	4,586
Dividend payable	OL	**19,586**	**19,586**	23,411	23,411
Notes payable	OL	**194,688**	**194,688**	217,003	217,003
Long-term debt	OL	**221,137**	**287,317**	221,343	293,132

[1] Classification details are:
HFT – held-for-trading
LAR – loans and receivables
OL – other liabilities

Determination of fair value

When the carrying amount of a financial instrument is the most reasonable approximation of fair value, reference to market quotations and estimation techniques is not required. The carrying values of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, dividend payable and notes payable approximate their fair values due to the short-term maturity of these financial instruments.

For financial instruments listed below, fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgement and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Notes to Financial Statements

Note 21 – Financial instruments, continued

Level 1 – Where quoted prices are readily available from an active market.
Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.

(Thousands of dollars)	2009 Level 1	2009 Level 2	2009 Total	2008 Level 1	2008 Level 2	2008 Total
Sinking funds	-	$54,237	$54,237	-	$50,084	$50,084
Long-term debt	-	$287,317	$287,317	-	$293,132	$293,132

b) Currency risk

The Corporation is exposed to currency risk, primarily US dollars, through transactions with foreign suppliers, foreign currency denominated revenues and short-term foreign commitments. Assuming all other variables remained constant at December 31, 2009, currency fluctuations in excess of 15% would have a material impact on net income. Specifically, a 15% weakening in the Canadian dollar versus US dollar exchange rate would have a 5.2% unfavourable effect on net income while a 15% strengthening would have a 5.2% favourable effect on net income. The Corporation uses a combination of derivative financial instruments to manage these exposures when deemed appropriate. The Corporation does not actively trade derivative financial instruments.

c) Interest rate risk

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on sinking funds, short-term obligations and long-term debt. The most significant of these is interest rate risk related to issuance of long-term debt. However, assuming all other variables remained constant at December 31, 2009, a 15% (71 basis point) increase or decrease in interest rates would not have a material impact on net income.

Interest rate risk on short and long-term liabilities are managed based on the refinancing needs of the Corporation using derivative financial instruments when deemed appropriate.

The average effective interest rate on the Corporation's long-term debt was 8.24% (2008 - 8.24%) while the average actual interest rate on long-term debt was 8.31% (2008 - 8.31%).

d) Market risk

The Corporation is exposed to market risk primarily through the sinking funds. Fair value adjustments will fluctuate based on changes in market prices. The sinking funds consist of mostly Provincial government and Federal government bonds with varying maturities to coincide with related debt maturities, and are managed based on this maturity profile and market conditions. Fair value adjustments similar to those experienced up to December 31, 2009 would not have a material impact on net income.

e) Credit risk

The Corporation is exposed to credit risk through its accounts receivable and sinking fund assets. Credit risk related to sinking fund assets is minimized by dealing with institutions that have strong credit ratings. Credit risk related to customer accounts receivable is minimized because of the large

Notes to Financial Statements

Note 21 – Financial instruments, continued

and diverse customer base covering many consumer and business sectors. The Corporation evaluates customer credit risk and limits credit availability when necessary.

The carrying amount of financial assets represents the maximum credit exposure as follows:

	2009	2008
		(Thousands of dollars)
Accounts receivable	**$87,766**	$85,280
Accounts receivable - held for sale	-	7,401
Sinking funds – held for trading	**54,237**	50,084
	$142,003	$142,765

The aging of customer receivables, which indicates potential impairment losses, is as follows:

Continuing operations	**2009**	2008
		(Thousands of dollars)
Current	**$56,099**	$54,297
30-60 days past billing date	**12,596**	11,772
61-90 days past billing date	**4,287**	4,949
Greater than 90 days past billing date	**2,763**	5,820
Total	**$75,745**	$76,838

Provisions for credit losses are maintained and regularly reviewed by the Corporation, based on an analysis of the aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance account are as follows:

Continuing operations	**2009**	2008
		(Thousands of dollars)
Allowance for doubtful accounts, opening balance	**$9,025**	$2,994
Transfer from held for sale	**2,966**	-
Accounts written off	**(13,075)**	(8,183)
Recoveries	**4,118**	2,848
Provision for losses	**442**	11,366
Allowance for doubtful accounts, closing balance	**$3,476**	$9,025

Held for sale	**2009**	2008
		(Thousands of dollars)
Allowance for doubtful accounts, opening balance	**$2,966**	$1,003
Transferred to continuing operations	**(2,966)**	-
Accounts written off	-	(1,376)
Recoveries	-	271
Provision for losses	-	3,068
Allowance for doubtful accounts, closing balance	**$-**	$2,966

Notes to Financial Statements

Note 21 – Financial instruments, continued

f) Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments:

December 31, 2009

	Carrying Amount	Contractual cash flows	6 mths or less	7-12 mths	2 years	3-5 years	More than 5 years (Thousands of dollars)
Long-term debt	$221,137	$404,159	$9,480	$69,206	$14,721	$44,164	$266,588
Notes payable	194,688	195,779	273	273	195,233	-	-
Dividend payable	19,586	19,586	19,586	-	-	-	-
Accounts payable and accrued liabilities	116,430	116,430	116,430	-	-	-	-
	$551,841	$735,954	$145,769	$69,479	$209,954	$44,164	$266,588

December 31, 2008

	Carrying Amount	Contractual cash flows	6 mths or less	7-12 mths	2 years	3-5 years	More than 5 years (Thousands of dollars)
Long-term debt	$221,343	$422,710	$9,620	$9,206	$78,411	$44,164	$281,309
Notes payable	217,003	223,731	1,682	1,682	220,367	-	-
Dividend payable	23,411	23,411	23,411	-	-	-	-
Accounts payable and accrued liabilities	110,572	110,572	110,572	-	-	-	-
Accounts payable and accrued liabilities - held for sale	4,586	4,586	4,586	-	-	-	-
	$576,915	$785,010	$149,871	$10,888	$298,778	$44,164	$281,309

Sufficient operating cash flows are expected to be generated to fund these short-term contractual obligations and the Corporation anticipates it will be able to refinance long-term debt upon maturity.

Note 22 – Employee future benefits

The Corporation has a defined benefit pension plan (a), a defined contribution pension plan (b), and a service recognition defined benefit plan (c).

a) Defined benefit pension plan

The defined benefit pension plan is governed by the Corporation which has been closed to new membership since 1977. The defined benefit pension plan is registered under *The Pension and Benefit Act, 1992*, Saskatchewan, the *Income Tax Act*, Canada and is regulated by the Saskatchewan Financial Services Commission – Pension Division. The Corporation is responsible for adequately funding the defined benefit pension plan. Contributions are determined by actuarial valuations. The contributions reflect actuarial assumptions about future investment returns, salary projections and future service benefits. A valuation is performed at least every 3 years in accordance with *The Pension and Benefit Act, 1992*, Saskatchewan, to determine the actuarial present value of the accrued pension benefit. An actuarial valuation for accounting purposes was performed at November 30, 2009. The latest valuation for funding purposes was performed as of December 31, 2007.

Notes to Financial Statements

Note 22 – Employee future benefits, continued

The defined benefit pension plan provides a full pension at age 65, at age 60 with at least 20 years of service or upon completion of 35 years of service. The pension is calculated to be 2% times the average of the highest three years of pensionable earnings times the number of years of service up to a maximum of 35 years of service. A reduced pension may be opted for if certain age and years of service criteria are met. Pensions are subject to annual indexing with the Consumer Price Index (CPI) up to a maximum of 2% per year.

For employees that retire before the age of 65 but meet other age plus service requirement either a reduced or unreduced pension may be payable.

Key assumptions used as inputs to the actuarial calculations are:

	2009	2008
Discount rate	**6.00%**	7.50%
Expected return on plan assets	**6.75%**	6.75%
Inflation rate	**2.50%**	2.50%
Expected salary increase	**3.00%**	3.00%
Post-retirement index (not to exceed 2%)	**100% of CPI**	100% of CPI

The table below shows the allocation of pension plan assets:

Asset category	**2009**	2008
Equity securities	**58.1%**	52.7%
Bonds	**26.0%**	32.6%
Short-term investments (treasury bills, notes and commercial paper)	**6.9%**	4.6%
Real estate	**9.0%**	10.1%
	100.0%	100.0%

The table below shows the components of the defined pension plan cost:

	2009	2008 (Thousands of dollars)
Current service cost – defined benefit plan	**$1,261**	$2,663
Interest cost	**59,670**	54,350
Expected return on pension plan assets	**(66,551)**	(63,367)
Special termination benefits costs	**-**	11,584
Amortization of net transitional asset	**(3,845)**	(11,651)
Amortization of past service costs	**1,057**	3,538
Amortization of actuarial loss	**-**	1,726
Net pension income	**$(8,408)**	$(1,157)

The accrued benefit obligation, plan assets and deferred pension cost tables below show the change in the defined benefit pension plan and the change in the fair value of the plan's assets during the year and the status of the plan as at December 31, 2009 and 2008.

Notes to Financial Statements

Note 22 – Employee future benefits, continued

Accrued benefit obligation	2009	2008
		(Thousands of dollars)
Accrued benefit obligation, beginning of year	**$826,771**	$1,015,444
Impact due to change in actuarial valuation	**-**	7,389
Current service cost	**1,789**	3,413
Curtailment gain	**(239)**	(18,010)
Interest cost	**59,669**	54,348
Benefits paid	**(65,427)**	(63,273)
Impact due to change in assumptions	**154,192**	(184,124)
Special termination benefits costs	**-**	11,584
Accrued benefit obligation, end of year	**$976,755**	$826,771

Plan assets	2009	2008
		(Thousands of dollars)
Fair value of plan assets, beginning of year	**$844,548**	$1,044,655
Actual return on plan assets	**108,405**	(167,182)
Employer contributions	**8,252**	29,599
Employee contributions	**528**	749
Benefits paid	**(65,427)**	(63,273)
Fair value of plan assets, end of year	**$896,306**	$844,548

Deferred pension costs	2009	2008
		(Thousands of dollars)
Funded status surplus (deficit)	**$(80,449)**	$17,777
Unamortized transitional asset	**-**	(3,844)
Unamortized past service costs	**-**	1,057
Unamortized net actuarial losses	**188,594**	76,528
Deferred pension costs	**$108,145**	$91,518

b) Defined contribution pension plan

The defined contribution pension plan requires the Corporation to contribute 7% of employees' pensionable earnings and employees to contribute a minimum of 4% of pensionable earnings. The total cost for the defined contribution plan is equal to the Corporation's required contribution. The Corporation's 2009 pension cost and employer contributions for the Public Employees Pension Plan are $17,442,870 (2008 - $16,834,351).

c) Service recognition defined benefit plan

The service recognition defined benefit program provided a retiring allowance of two days salary per year of service which is payable on retirement. Based on the Collective Agreement between the Corporation and the Communications, Electrical and Paperworkers Union of Canada, ratified April 22, 2006, the service recognition defined benefit program was curtailed effective March 19, 2005

Notes to Financial Statements

Note 22 – Employee future benefits, continued

Employees will no longer earn two days pay per year of service, however will continue to earn incremental pay increases for the earned service at March 19, 2005 until retirement. Key assumptions used as inputs to the actuarial calculations are:

	2009	2008
Discount rate	**5.40%**	7.40%
Expected salary increase	**3.00%**	3.00%
Estimated average remaining employee service life	**14.1 years**	14.1 years

Accrued benefit obligation

	2009	2008
	(Thousands of dollars)	
Accrued benefit liability, beginning of year	**$16,257**	$18,658
Defined benefit service cost	**1,175**	319
Benefit payments	**(2,245)**	(2,720)
Accrued benefit liability, end of year	**$15,187**	$16,257

Note 23 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to CIC by virtue of common control by the Government of Saskatchewan, and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2009	2008
	(Thousands of dollars)	
Operating revenues	**$77,678**	$85,832
Operating expenses	**79,930**	73,886
Other items	**94**	52
Accounts receivable	**16,266**	7,530
Property, plant and equipment expenditures	**2,920**	2,531
Accounts payable and accrued liabilities	**7,893**	6,177

The Corporation participates in customer solutions which may involve delivery of the Corporation's services in conjunction with those of related parties. Participation in these customer solutions is done at no cost to the Corporation as agreed to by the related parties.

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Ministry of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Notes to Financial Statements

Note 23 – Related party transactions, continued

A director of the Corporation has an indirect minor interest in a related party from which the Corporation recorded operating revenues of $213,834 (2008 - $222,706), operating expenses of $24,145,728 (2008 - $20,301,393) for services rendered to the Corporation, accounts receivable of $14,517 (2008 - $22,122) and accounts payable and accrued liabilities of $562,985 (2008 - $1,738,027).

Other amounts and transactions due to (from) related parties and the terms of settlement are described separately in these financial statements and notes thereto.

Note 24 – Comparative figures

Certain of the 2008 figures have been reclassified to conform to the current year's presentation.